

## SARA Conference 2008

---

### **Linking Reward, Attraction, Retention and Engagement and Business Performance – Global Lessons for South Africa**

Dr. Gavin Watkins

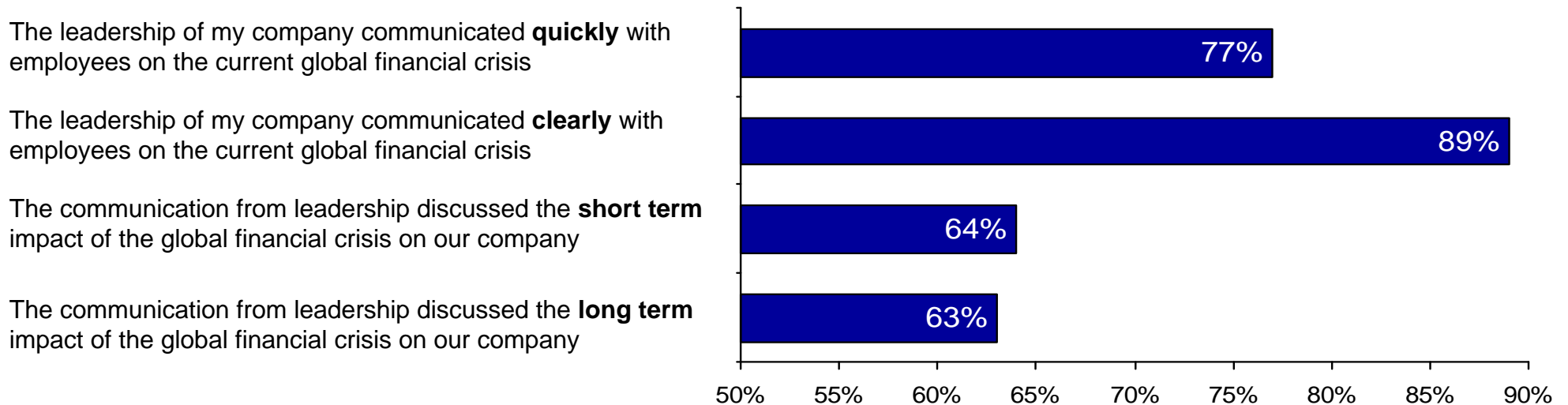
6 November 2008

Reproduction in whole or part of this material is strictly prohibited. They should not be relied on as a substitute for specific advice. Therefore, no responsibility for loss occasioned to any person as a result of acting or refraining from acting on the contents of or information contained in these notes can be accepted by Towers Perrin.

## Pre-Conference Questionnaire Results (N=76)

### Leadership

58% of respondents indicated that the leadership of their company had communicated with employees on the current global financial crisis. Within this group views were mainly favourable that leadership:



### Engagement

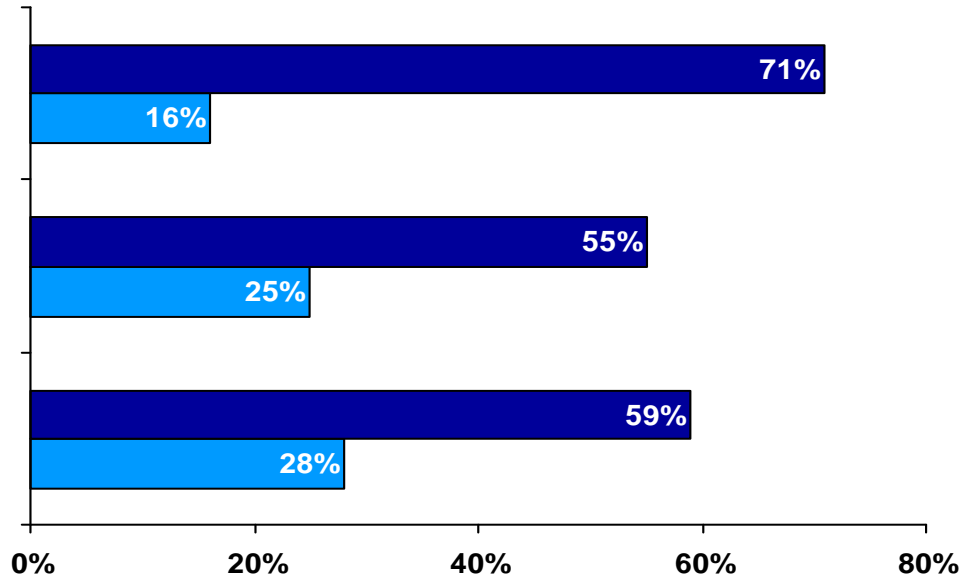
43% of respondents indicated that their company measures employee engagement on a regular basis, with yearly being the most common.

Most companies do not use employee engagement measures in managers performance evaluation (73%) and less than a quarter (24%) of companies link engagement to business metrics.

## Pre-Conference Questionnaire Results cont'd (N=76)

### Rewards

1a. My company's reward strategy is effective at **attracting** talented people



1b. My company's reward strategy is effective at **engaging** talented employees

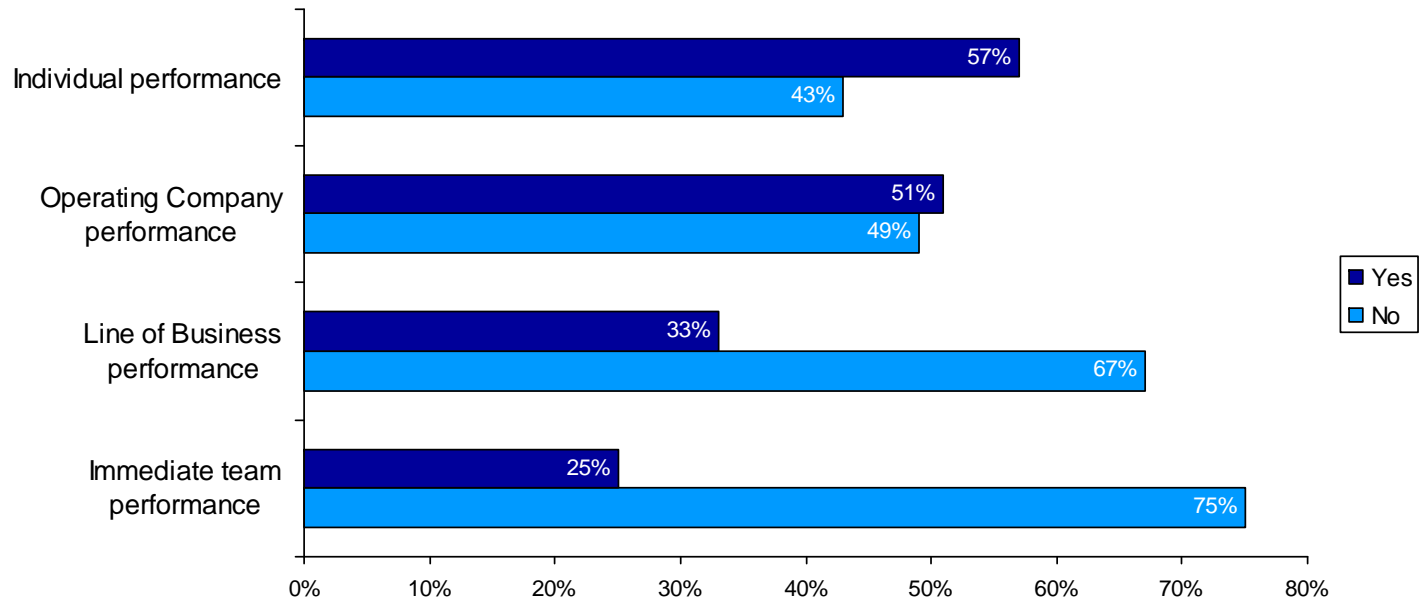
1c. My company's reward strategy is effective at **retaining** talented employees

	Yes	No
2. In my company, we customise rewards according to business critical skill sets.	63%	37%
4. Does your organisation take a "total rewards" approach to rewards?	78%	22%
5. Does your organisation measure the effectiveness of its rewards programmes?	42%	58%

## Pre-Conference Questionnaire Results cont'd (N=76)

### Performance Management

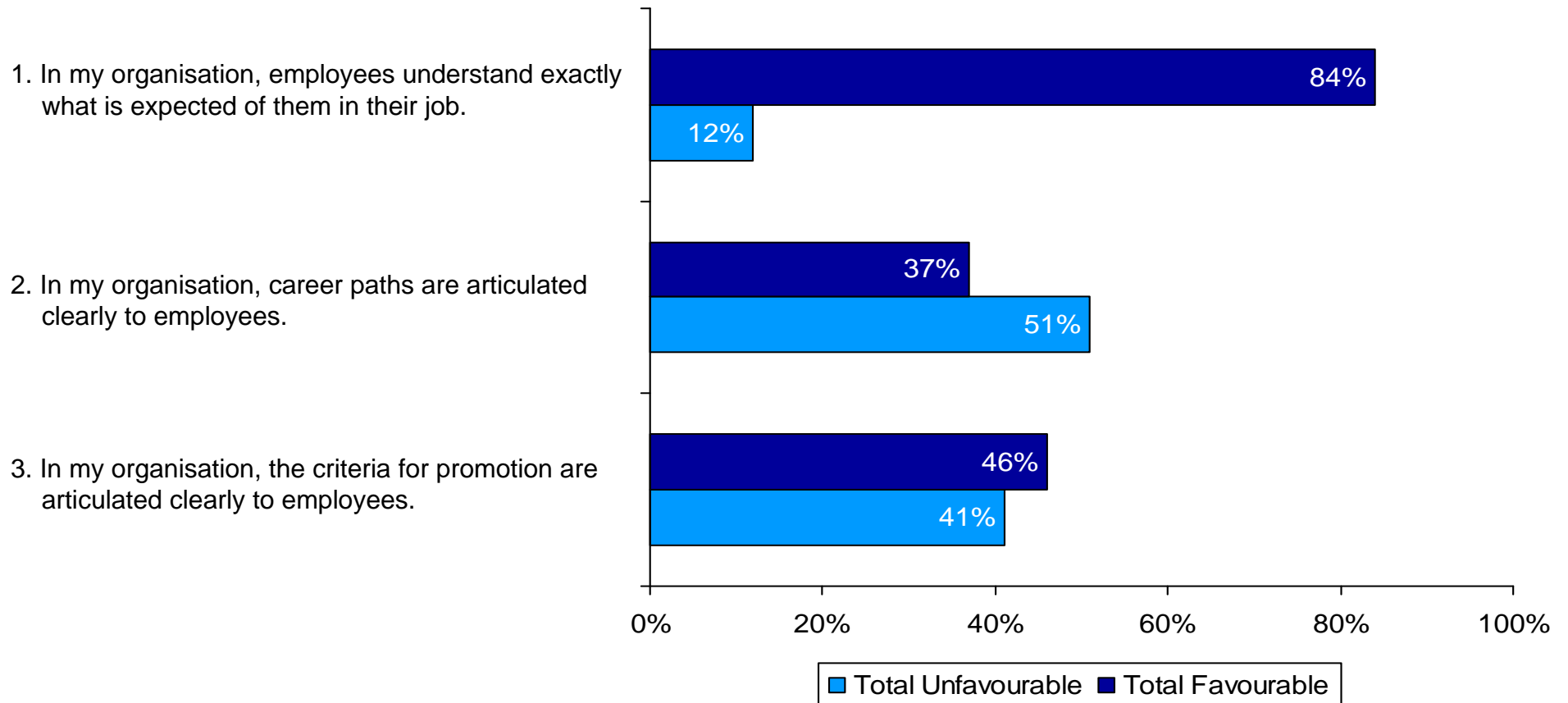
65% of respondents indicated their company effectively differentiates rewards based on performance.



	Total Favourable	?	Total Unfavourable
Individual performance is managed fairly and consistently	61%	15%	24%

## Pre-Conference Questionnaire Results cont'd (N=76)

### Career Management

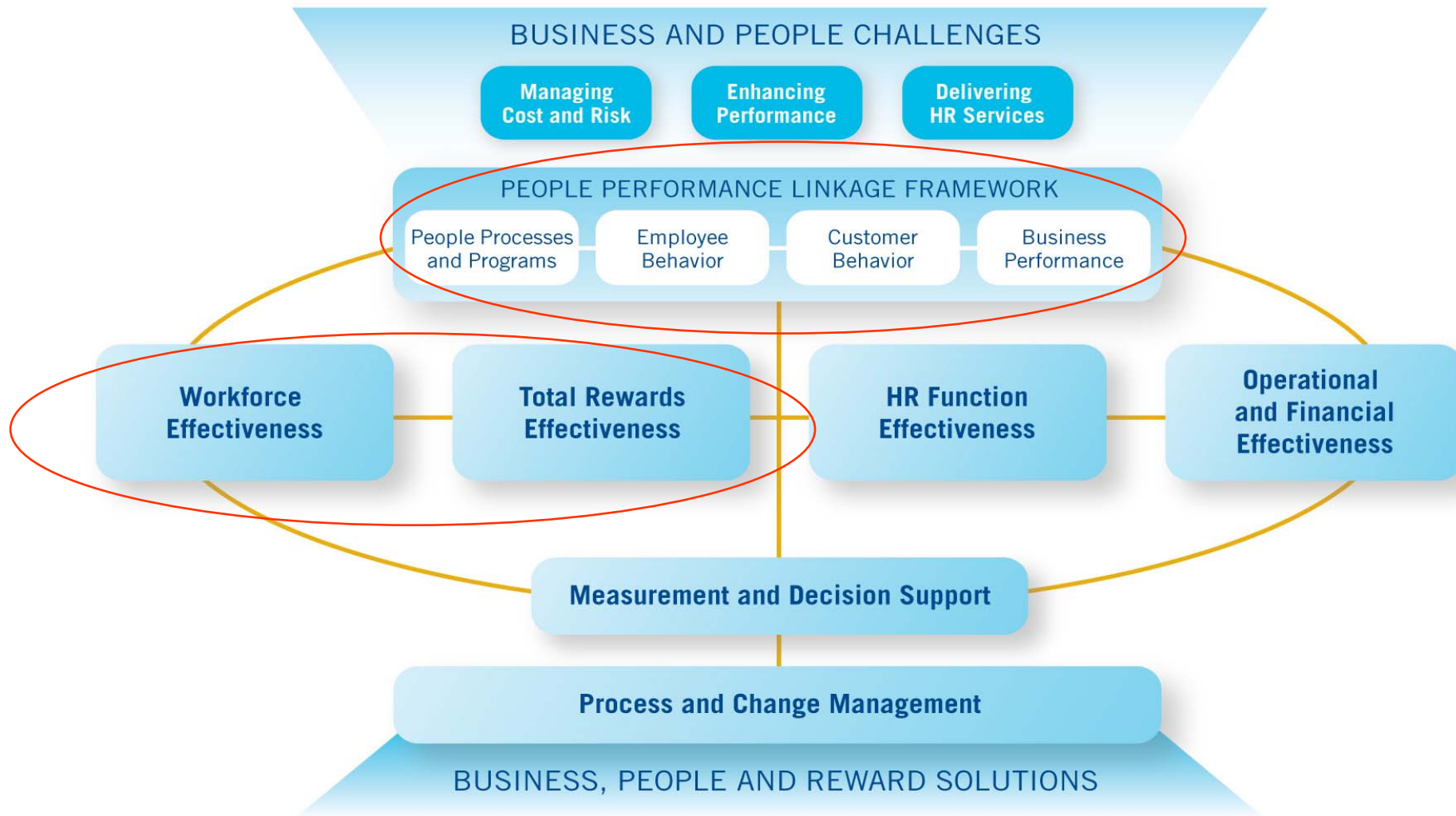


## Agenda

---

- Setting the Context
- Some Data
- Workforce Management & Reward Strategies
- Measuring Success & Impact of Interventions
- Closing Remarks and Q&A

## Setting the Context: HR Framework



This framework is proprietary to Towers Perrin and cannot be used without permission

## Top 10 Challenges Facing HR Practitioners in South Africa in 2008

---

1	Retention of critical staff
2	Finding skilled staff
3	Length of time it takes to fill vacancies
4	Succession Planning
5	Meeting the growth expectations of individual employees
6	Availability of appropriate HR metrics to the HR function and/or availability of applicable HR metrics to Line
7	Employment Equity and BEE compliance/advancement
8	Performance Management and Recognition
9	Managing organisational culture and employee engagement
10	Need for advanced HR Information Systems and/or the implementation thereof

Source: Dr Albert Wocke; Gordon Institute of Business Science; University of Pretoria

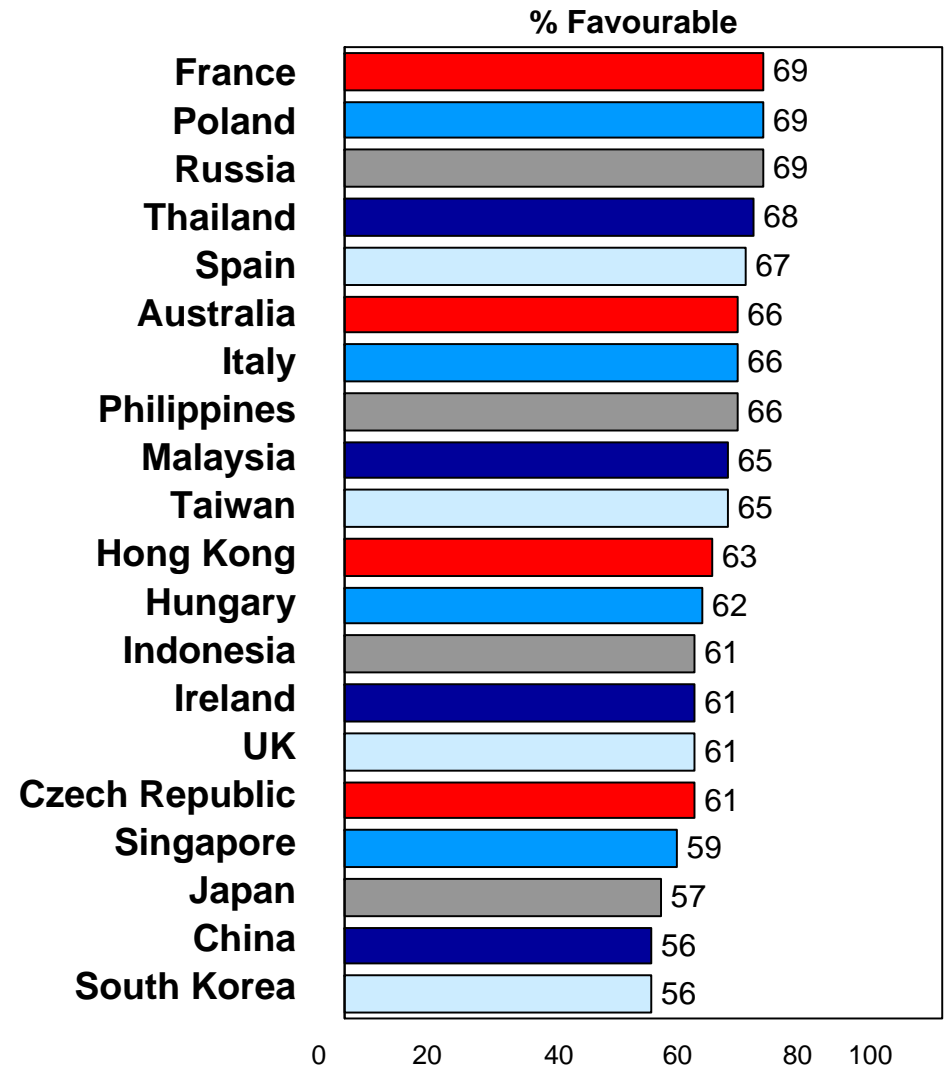
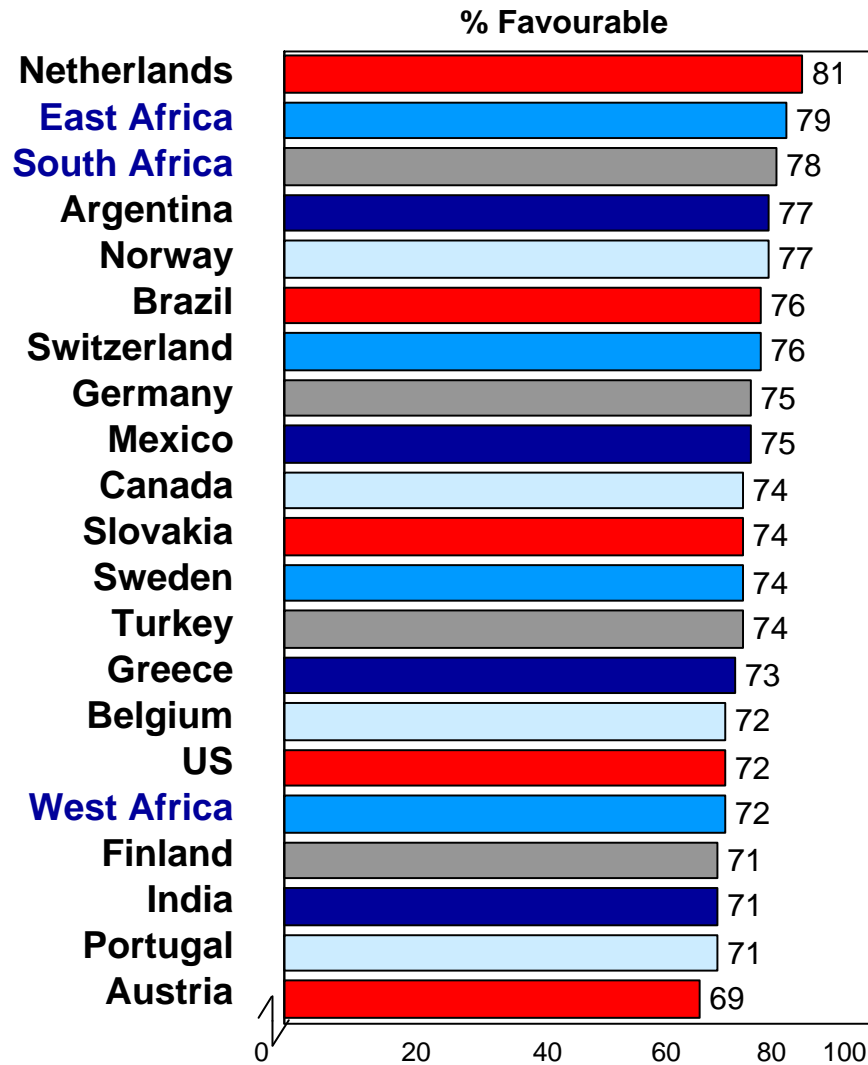


## Towers Perrin: Research Data

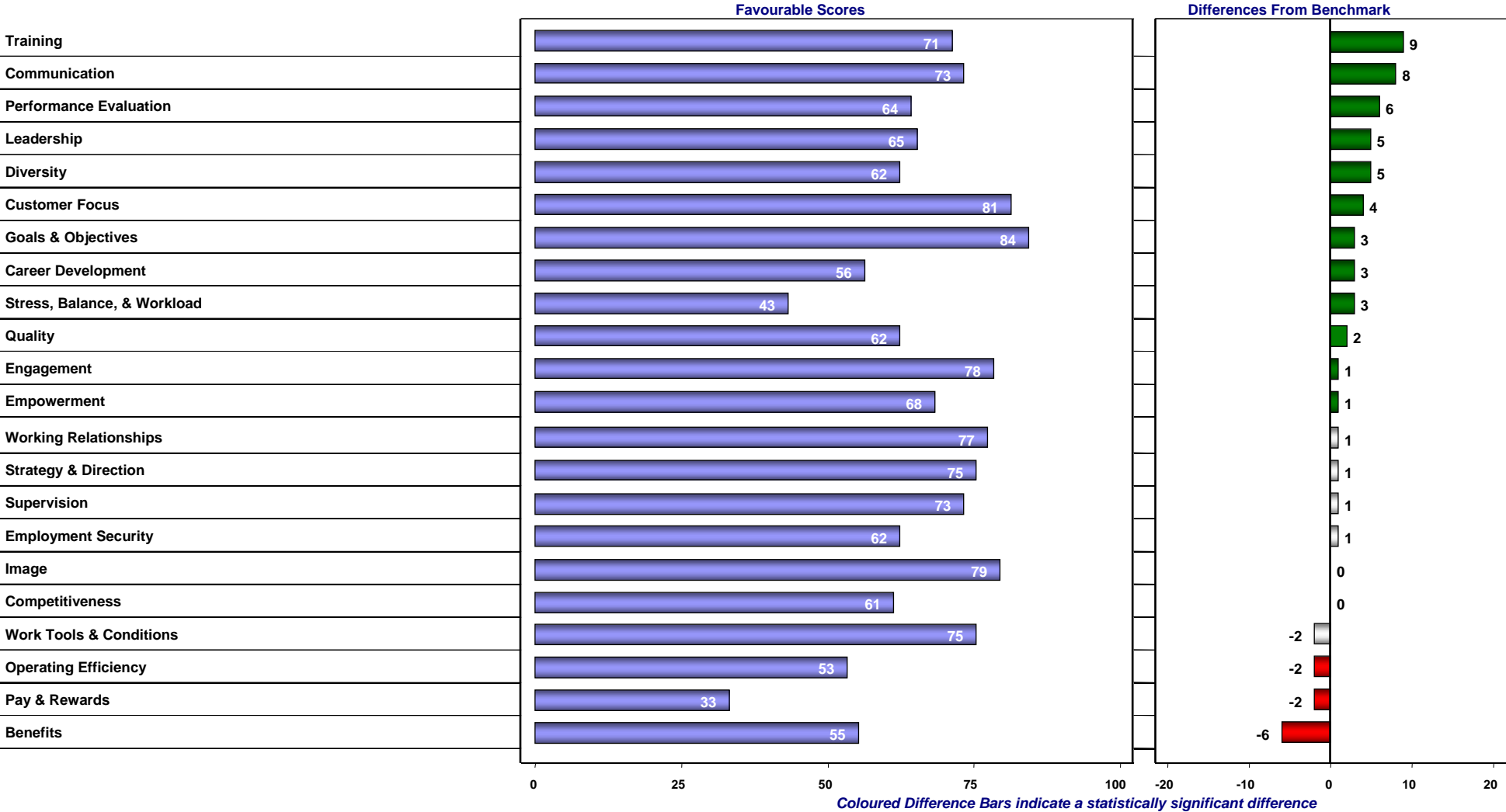
---

- 2007 Global Workforce Study: Largest polling study on the views of the global workforce
  - 90,000 individual responses
  - 18 countries in every region
  - Focussed on the drivers of attraction, retention and engagement through the eyes of workers at mid- to large-sized companies
- Towers Perrin-ISR Normative Data: Most extensive normative database of employee attitudes and opinions in the world based on 2,000,000 annual responses

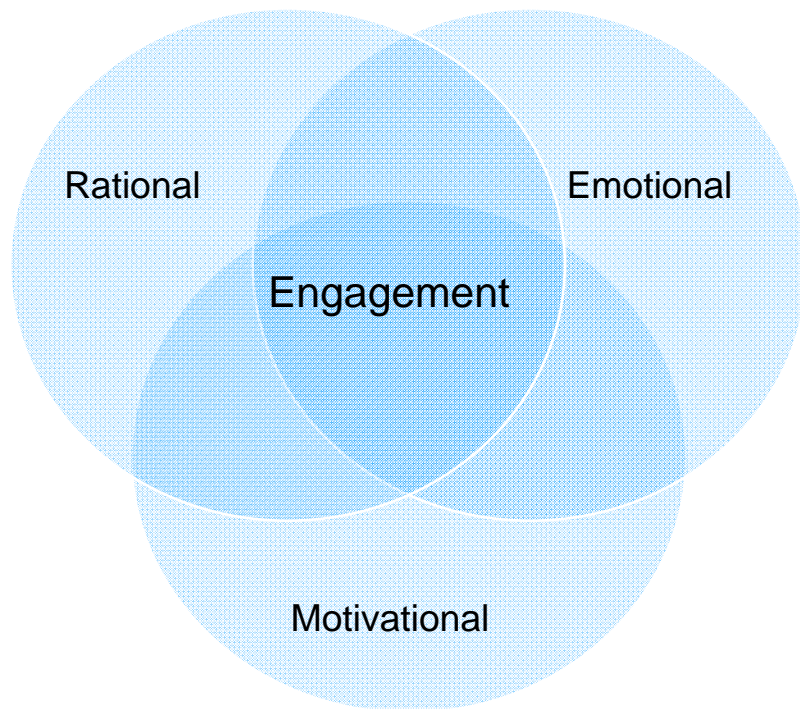
## Employee Opinion Across the Globe: Some Typical National Differences



# Towers Perrin-ISR South Africa National Norm: Historical Trends since 2005



## What is Employee Engagement?



To be fully engaged, employees must have:

- Rational understanding of the organisation's strategic goals, values, and how employees fit (Think)
- Emotional attachment to the organisation (Feel)
- Motivation and willingness to invest discretionary effort to go above and beyond (Act)

### **Rational items**

- I believe strongly in the goals and objectives of this company
- I fully support the values for which this company stands
- I understand how I can help my company achieve its goals

### **Emotional items**

- I would recommend my organisation to a friend as a good place to work
- I am proud to tell others I work for my organisation
- My organisation inspires me to do my best work

### **Motivational items**

- I am willing to put in a great deal of effort beyond what is normally expected to help my organisation succeed
- I am personally motivated to help my organisation be successful
- I fully apply my skills and abilities in my work

## Does engagement matter? Senior executive views

---

“I have this view that most employees are capable of a huge amount more than they are allowed to do by the system. It’s a bit like stored energy... but how do you constructively release that energy?”

*Sir David Barnes, AstraZeneca  
(former CEO)*

“In my business with 140,000 people engagement is my No. 1 concern. In businesses of scale you don’t even get started without engagement.”

*Justin King, Sainsbury’s*

“You sort of smell it don’t you.....that engagement of people as people. What goes on in meetings, how people talk to each other. You get the sense of energy, engagement, commitment, belief in what the organisation stands for.”

*Lord Currie, Ofcom, Cass*

“Sales tend to grow better in a store where the motivation and morale are high, the absenteeism tends to be lower and therefore the mechanistic jobs are being done more efficiently.”

*Richard Baker, Alliance Boots*

“Unless you have got people aligned, you haven’t got a hope in hell.”

*Peter Erskine, MM02*

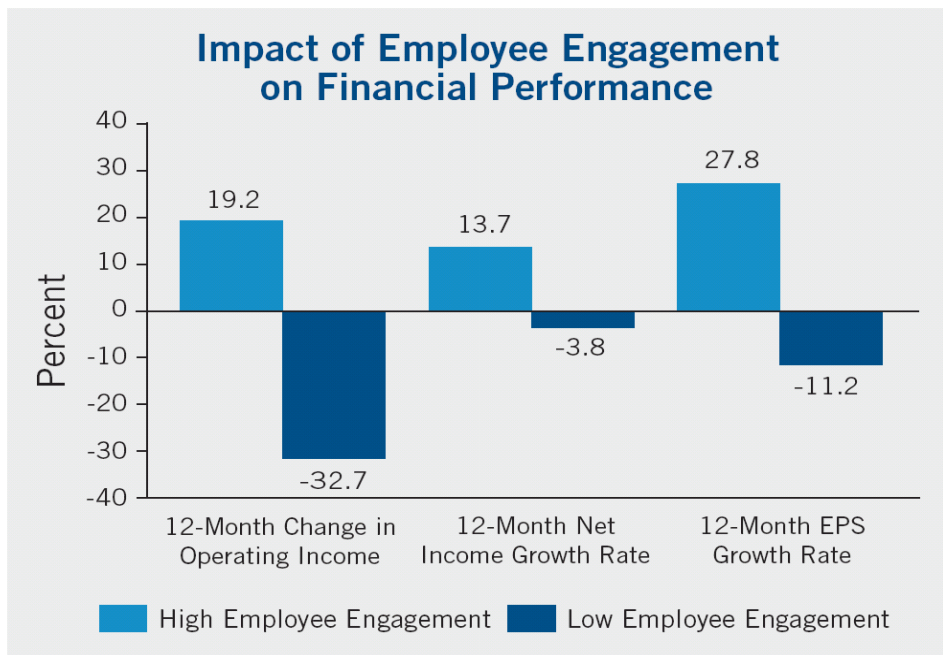
“Some factories are buzzing with a real kind of entrepreneurial passion. They want to do it leaner, faster, more efficiently with higher quality, with less failure. In other factories you go into they don’t seem to give a damn and consequently knock out rubbish.”

*David Spencer, Smiths Industries NSG*

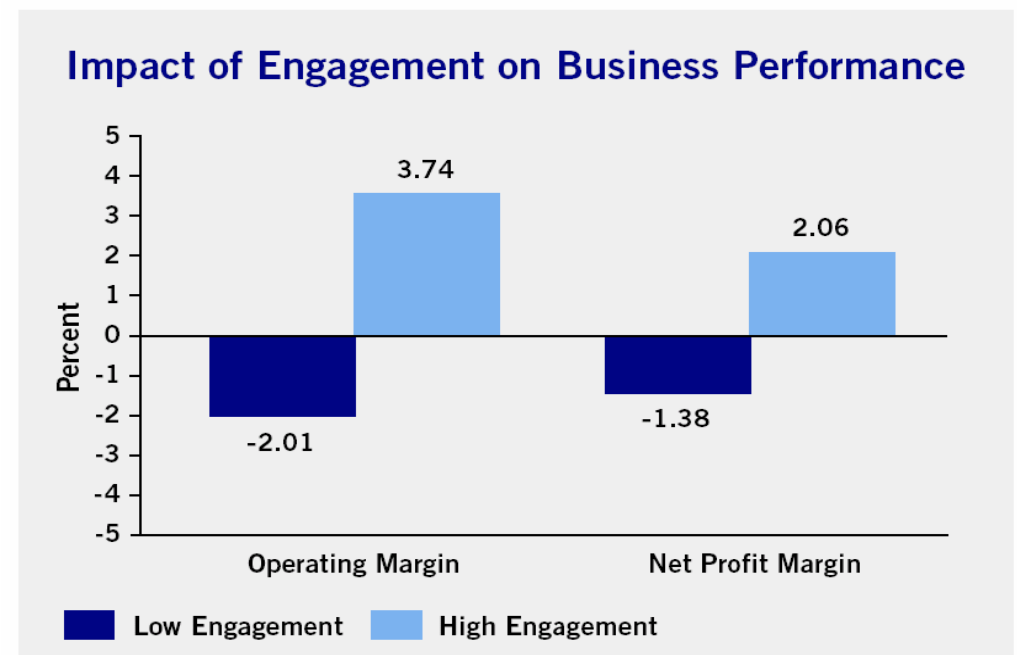
Source: “Going The Extra Mile” David Macleod and Chris Brady

## Employee engagement has an immediate impact on business performance

Towers Perrin-ISR's engagement measure is highly predictive of performance and is noted as being the foundation of many other frameworks in the industry.



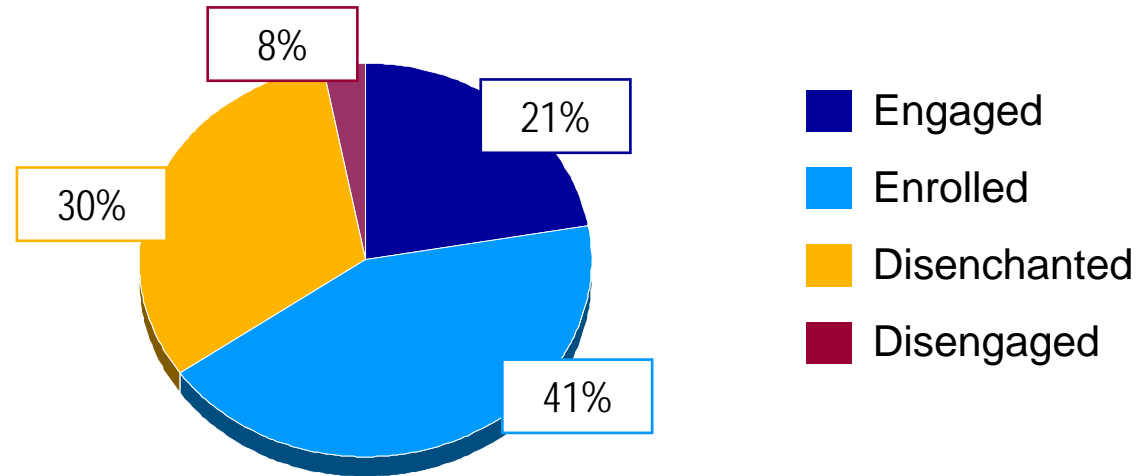
A 12-month study across 50 global companies



A 3-year study across 40 global companies

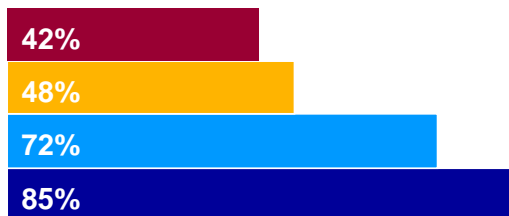
## Current employee engagement levels

Global

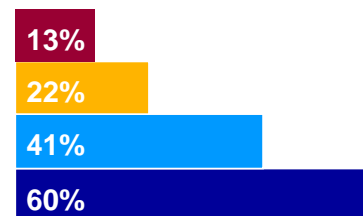


There are enormous gaps between the impact the engaged vs the disengaged can have on the business...

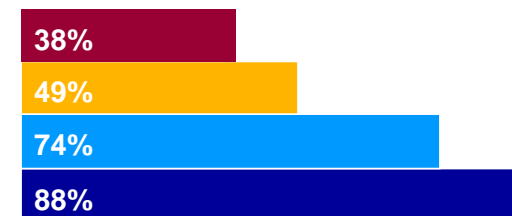
**I can impact customer satisfaction**



**I can impact innovation**



**I can impact quality**



Source: Towers Perrin 2007-08 Global Workforce Study — Global

Globally, we know what typically drives engagement at each stage of the employment life cycle.....

Top Attraction Drivers	Top Retention Drivers	Top Engagement Drivers
Competitive base pay	Organisation's reputation as a great place to work	Senior management sincerely interested in employee well-being
Career advancement opportunities	Satisfaction with the organisation's people decisions	Improved my skills and capabilities over the last year
Challenging work	Good relationship with supervisor	Organisation's reputation for social responsibility
Convenient work location	Understand potential career track within organisation	Input into decision making in my department
Flexible schedule	Ability to balance my work/personal life	Organisation quickly resolves customer concerns
Learning and development opportunities	Fairly compensated compared to others doing similar work in my organisation	Set high personal standards
Vacation/paid time off	Work in environment where new ideas are encouraged	Have excellent career advancement opportunities
Reputation of the organisation as a good employer	Competitive training	Enjoy challenging work assignments that broaden skills
Reasonable workload	Input into decision making in my department	Good relationship with supervisor
Organisation's financial health	Organisation's reputation for social responsibility	Organisation encourages innovative thinking

Source: Towers Perrin 2007 Workforce Study — Global.



.... But there are some differences in a South African context

Top Attraction Drivers	Top Retention Drivers	Top Engagement Drivers
Long term advancement opportunities	Leaders create a positive work environment	Motivational leadership style
Promoting the most competent	Leaders provide clear direction towards achieving strategy	Leaders interested in employee wellbeing
Opportunities for development and growth	Company operates with integrity in its internal dealings	Confidence in leadership decisions
Commitment to growing and developing leaders	Opportunities for development and growth	Sufficient authority to do job well
Leadership acts with integrity	Promoting the most competent	Creative and innovative thinking encouraged
Confidence in leadership decisions	Company does a good job of rewarding top talent	Long term career opportunities
Company supports diversity	Company does a good job of matching pay to performance	Promoting the most competent
Company uses diversity to improve business performance	Reward philosophy encourages high performance	Opportunities for development and growth

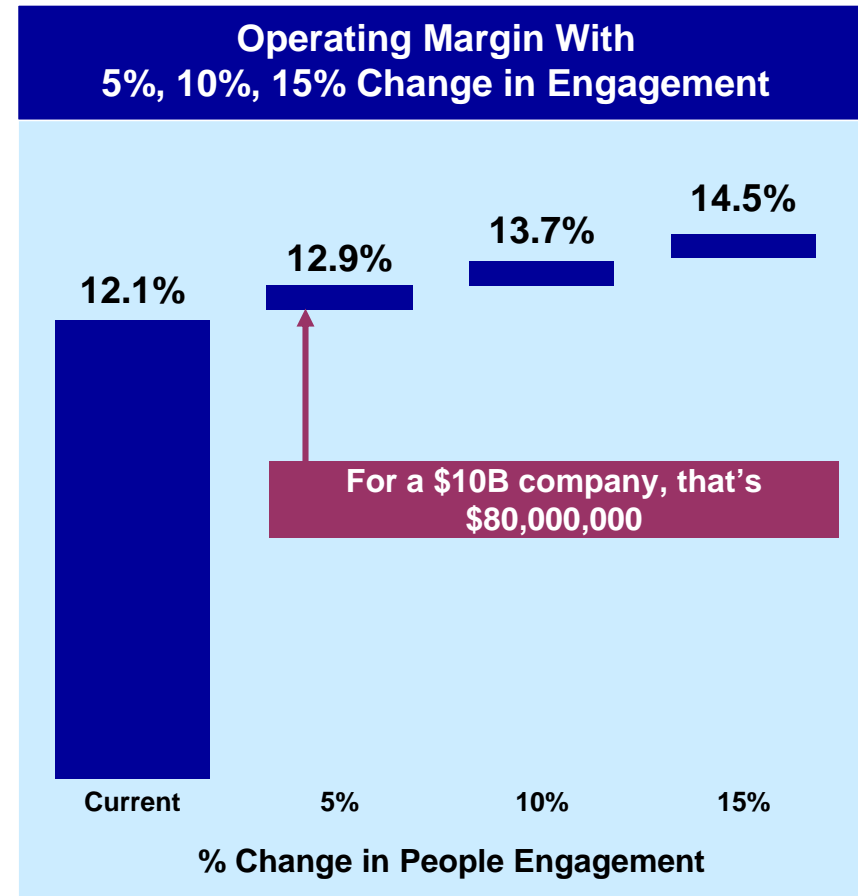
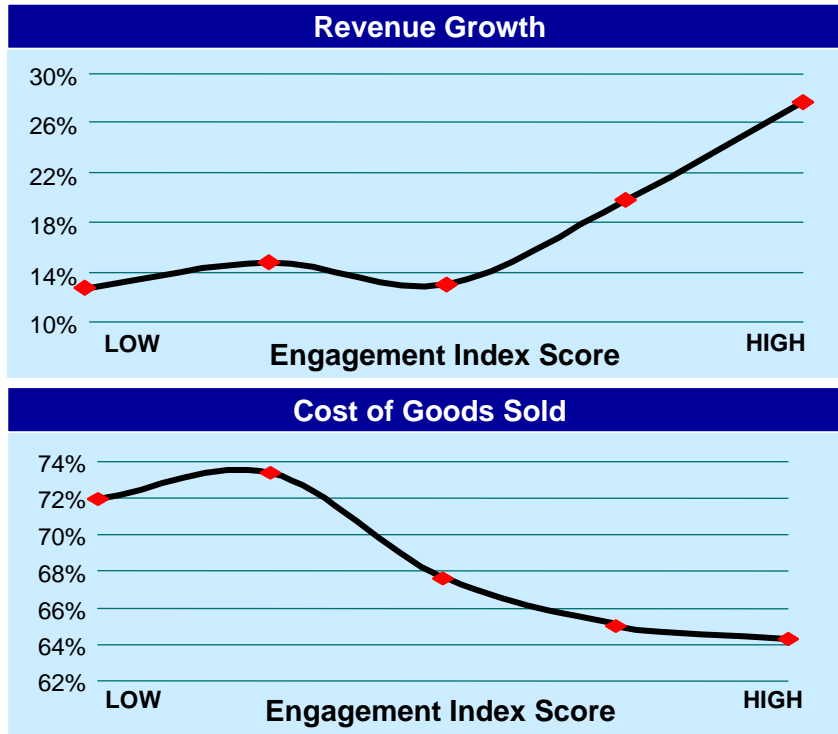
Source: Towers Perrin 2007 Workforce Study — Global.

## Executive Summary

---

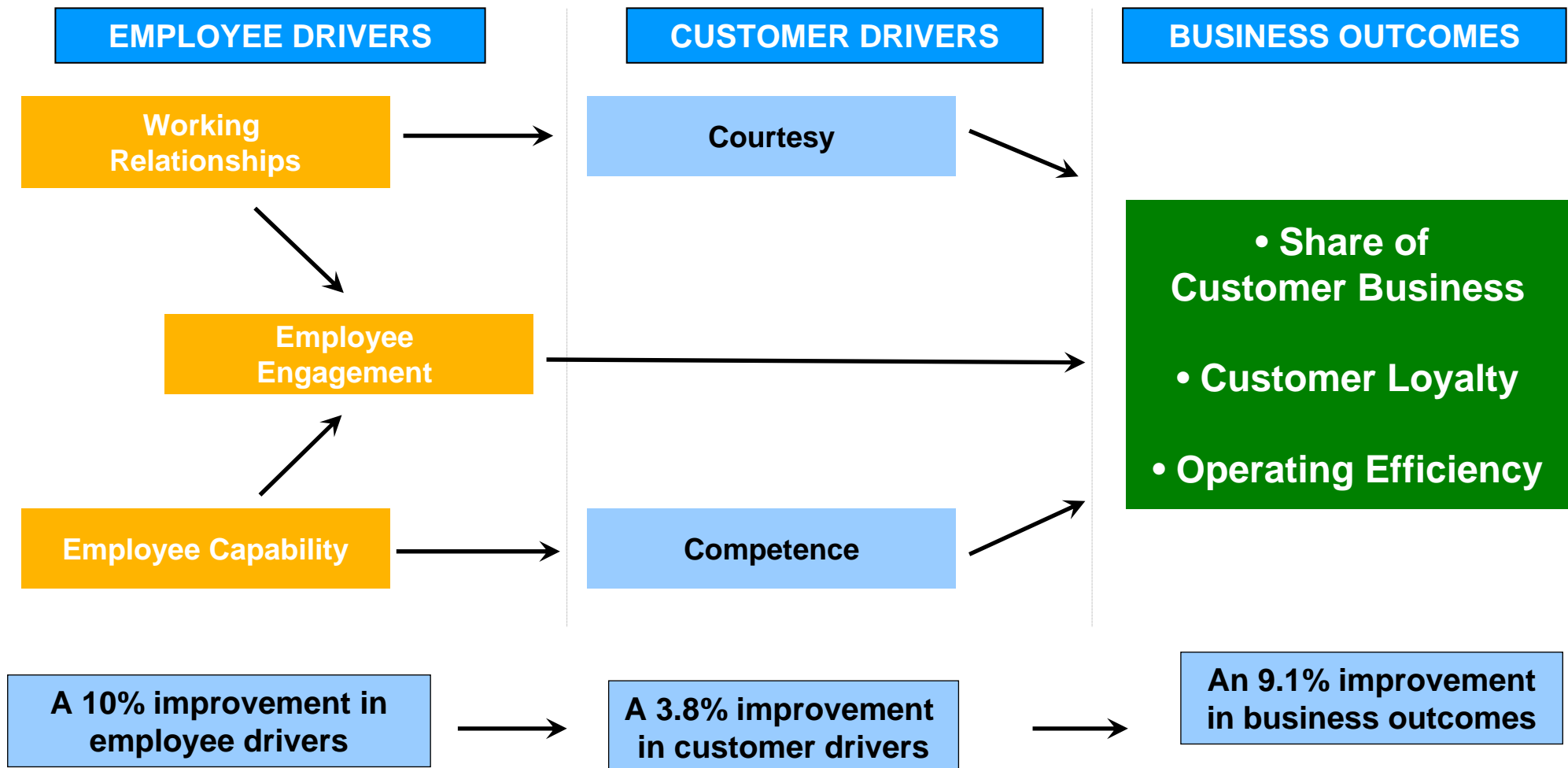
- Three issues appear most often among the key drivers of **Engagement** in South Africa
  - Leadership: Inspiring, giving confidence
  - Empowerment: Employees are encouraged to take initiative
  - Career Development: Opportunities for growth, promoting the most competent
  
- Similar issues appear among the key drivers of **Retention** in South Africa
  - Leadership: Providing clear direction, creating positive atmosphere
  - Learning & Development: Retaining top talent, Opportunities for growth
  - Pay & rewards: Programs encourage high performance, providing pay-for-performance
  
- Key drivers of **Attraction** among companies in South Africa are, among others
  - Career Development: Offering long-term opportunities
  - Leadership: Committed to developing leaders, management team acts with integrity
  - Diversity: Diversity in the work place is supported

## Build the engagement business case



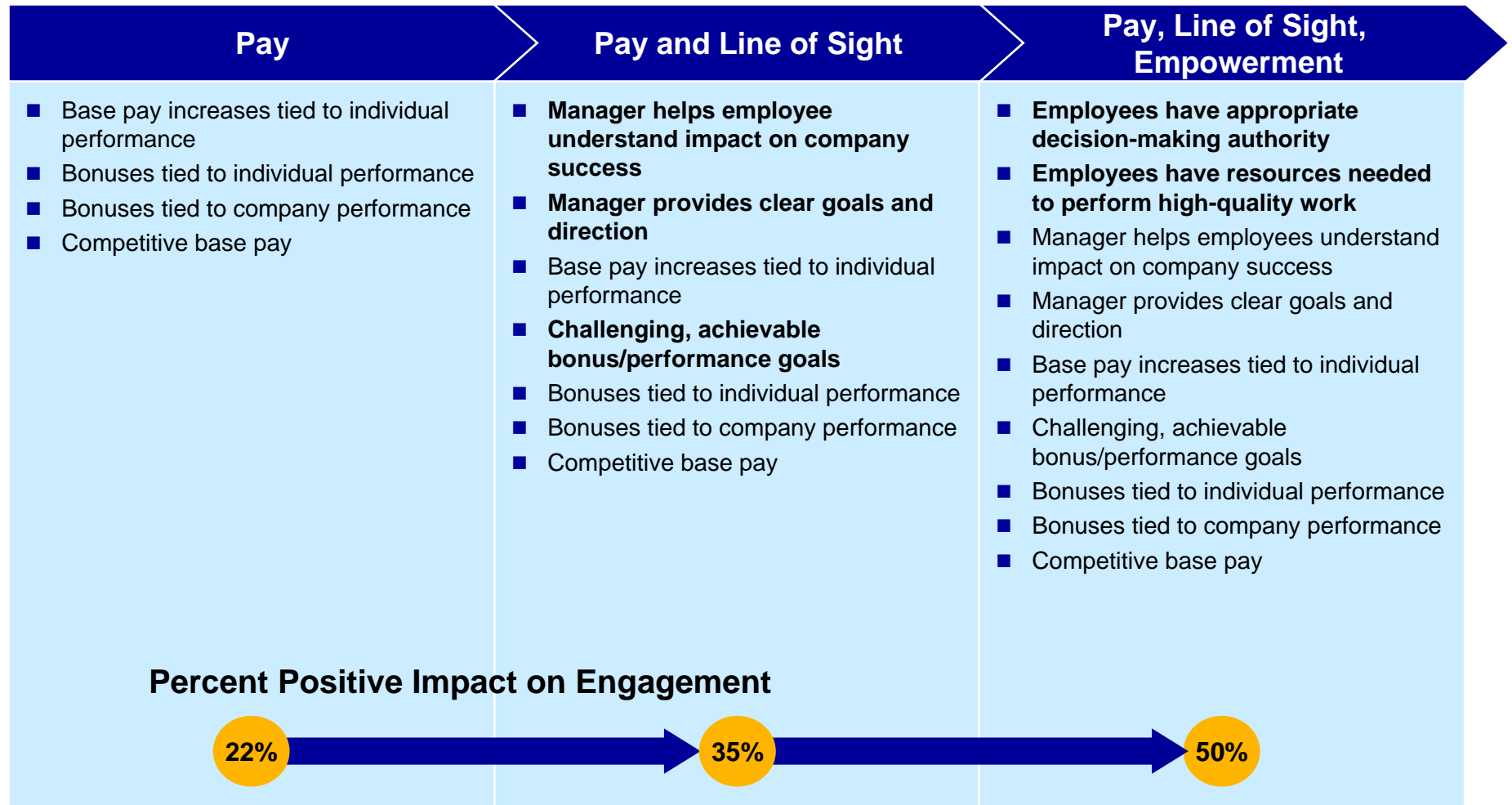
Source: Towers Perrin 2003 Talent Report: New Realities in Today's Workforce.

## What is the output? Example from North American financial services

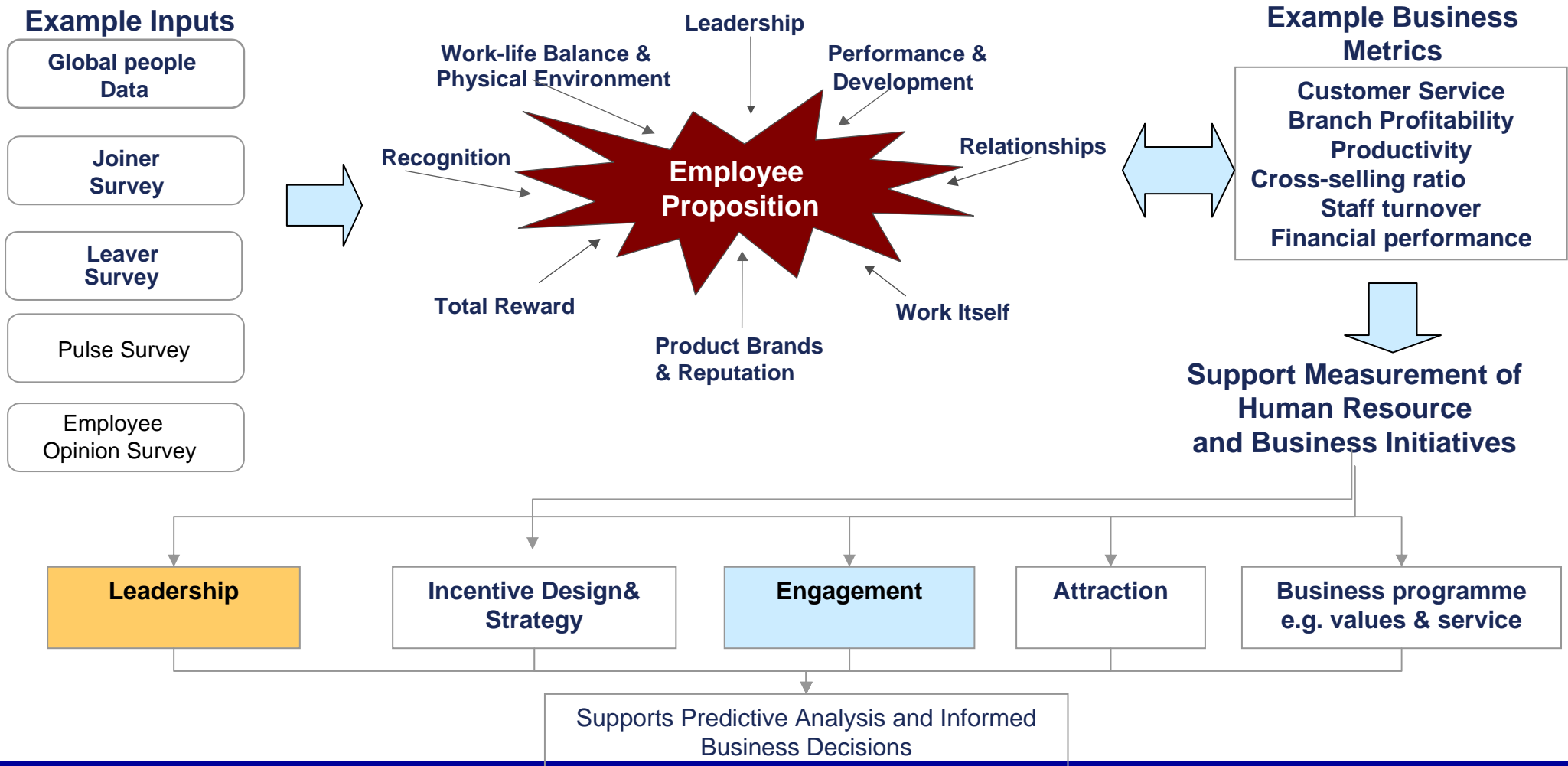


# High-performing organisations focus on performance management because they know that it affects employee engagement and behaviour...

- They design and manage performance management and rewards as an integrated system.



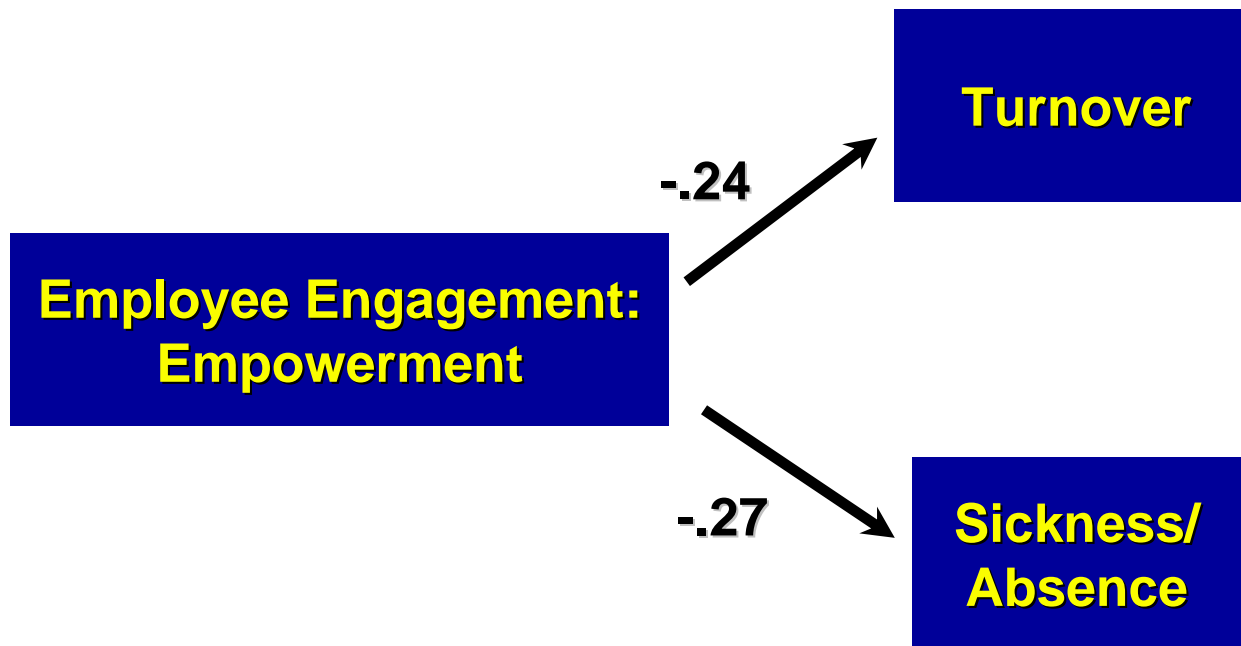
# Integrated Human Capital Measurement



# Large Global Bank: Impact of Empowerment on Retention

## More empowered employees:

- Leave the organization less frequently and
- Are less often sick and absent from work

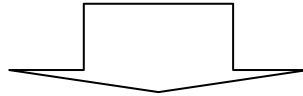


*.xx = standardized regression coefficient*

# Large Global Bank: Tackling Turnover. Research Findings Provide Cost Savings Estimates

## Absenteeism

## Turnover:



### Costs to the Bank:

\$24 per hour

\$5,280 training per new  
Customer Service Associate



If the level of Role Empowerment for the bottom 40% of branches is raised to the bank average



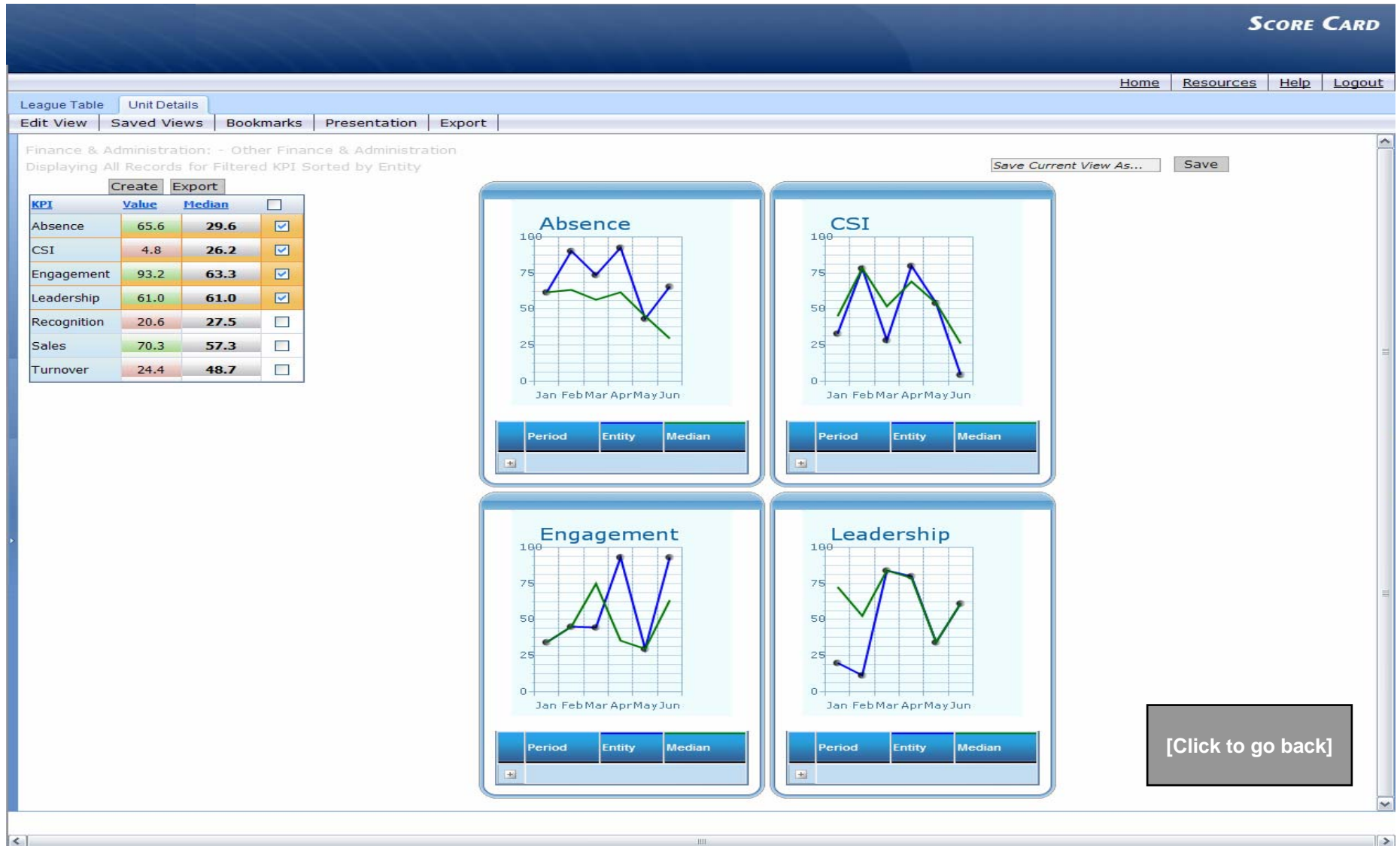
### Benefit per year:

30,000 hours saved  
\$720,000 saved

350 fewer resignations  
\$1,848,000 saved



# Towers Perrin-ISR Dashboard, incorporating customer and business metrics



## Emerging reward strategies for talent management

---

- **Differentiated** approaches for performance
- **Customised** rewards for business critical skill areas
- **Engaging** reward programmes for the talent pool

## Differentiated approaches for performance

---

- High performing companies more likely to differentiate
- Employees recognise, accept and need to see differentiation
- Helps to manage scarce resources
- Sends a powerful message about performance

## What do we mean by differentiation and business critical?

---

### Differentiation is . .

- Offering different Total Rewards on the basis of **objective criteria**
- A process that needs to be based on an **analytical understanding** of employees
- A **defensible** way of providing different levels of Total Rewards

### Differentiation is not . . .

- Discrimination
- Just about pay and incentives
- Ad hoc, one-off individual adjustments (usually in response to an immediate crisis)

By business critical we mean that which most **significantly** contributes to business success and the **achievement of strategy**

It can be Business Critical . . .

- **Work**
- **Roles**
- **Individuals and their performance**

## Why differentiate rewards?

---

- Isn't it much easier to do the same thing for everyone?
- Aren't there a lot of risks of differentiation?
  - Real or perceived inequalities
  - Administrative burden
  - Unclear ROI
  - May lead to increased costs
  - Decreased alignment between reward costs and business results

- The short answer is yes, if differentiation is not done correctly
- But, if it is done well, **differentiating rewards can lead to a significant ROI for your reward programmes**, as the cases we will share with you today demonstrate.

## What are the benefits of differentiated rewards?

---

- Better **line of sight** between the value contributed and the reward offered
- More **effective spending** of limited reward monies
- Similar to benefits of customer segmentation
  - Segment defined as a group with a **unique** need or interest
  - **Customers**: able to capture a larger market share by providing unique offering meeting those needs (rather than one size fits all)
  - **Employees**: able to capture a larger mindshare and drive higher engagement levels by meeting unique needs

## It's not just about pay...

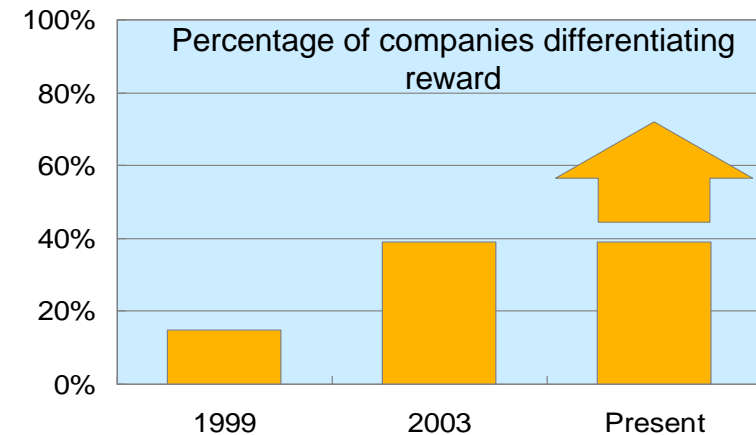
---

As we have said, **pay** is not the only reward item to be differentiated:

- Smart companies differentiate many aspects of **Total Rewards**
- Indeed many companies differentiate aspects of Reward **unknowingly** and in an ad hoc way
  - Seems to be an **accepted and non-controversial** form of differentiation
  - There seems to be little controversy about differentiating access to training, car programmes, flexible working and the like
- Pay differentiation, however, remains an HR hot potato – but may be where the **greatest opportunities** lie
  - When done well it can
    - Divert spending towards **results areas**
    - Send out **clear messages** about line of sight
    - Respond to the very **differing needs of different roles** – and don't necessarily add complexity

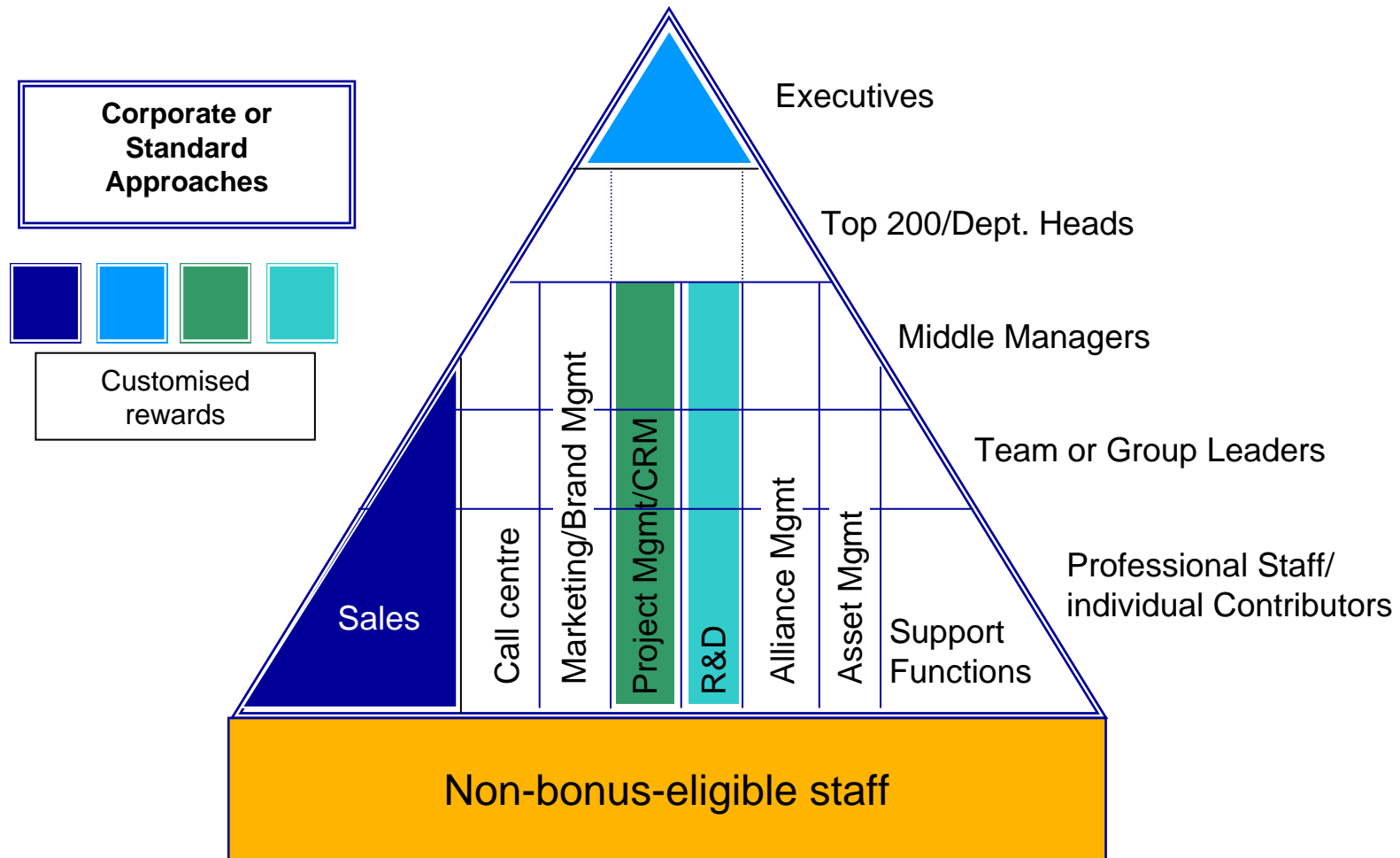
## High performing organisations understand the benefit of differentiating consistently

- Differentiation is critical because it:
  - Increases motivation
  - Improves retention of key staff
  - Supports efficient management of reward
- There is a marked trend towards higher degrees of differentiation in terms of performance and reward
  - % who differentiate rewards significantly increased from 15% (1999) to 39% (2003) and continues to rise
- This is confirmed by evidence from Towers Perrin and others





# Identifying business critical functions and developing customised rewards



## Distinct reward programmes for the talent pool

---

- Segmenting the workforce
- Identifying key aspects of engagement for talent pool
- Optimising spend on skill areas that have most impact on business performance

# What we have heard in recent months

“Our incoming CEO is likely to ask:

- what do we spend on Total Rewards?
- on what?
- how do we justify it”

Major FTSE100 company

“We need to reduce our annual rewards spend by £X00 m – how can we best achieve this?”  
Major US HQed multinational company

“This acquisition expands our presence outside the UK significantly. We need to establish ‘grip’ over our reward spend in a more formal way”  
Major FTSE 100 Company

“We think we may have moved too far from fixed to variable rewards”

Major pharmaceutical company

“We must increase our emphasis on variable rewards”

Major Global FMCG company

“Poor governance of rewards decisions is costing us in:

- Time
- Money
- Disengaged employees
- Business risk
- Quality”

Major FTSE100 company

“Which aspects of Total Rewards should be managed globally and which locally?”

Major European Retailer

# What is driving clients to look at Total Rewards?

---

## Talent constraints

- Feeling the pinch of retirements
- New employee value propositions
- More flexible rewards

## Cost constraints

- Reallocate reduced programme expenditure
- Reduce legacy liability programmes

## Globalisation

- Promoting employee value proposition
- Improved efficiency through governance

## M&A

- Realising the synergy value
- Harmonising programmes

## Competitive advantage

- Restructure of business
- Changes at competitors suggest need for update

# Optimising the Total Rewards spend requires addressing three key questions

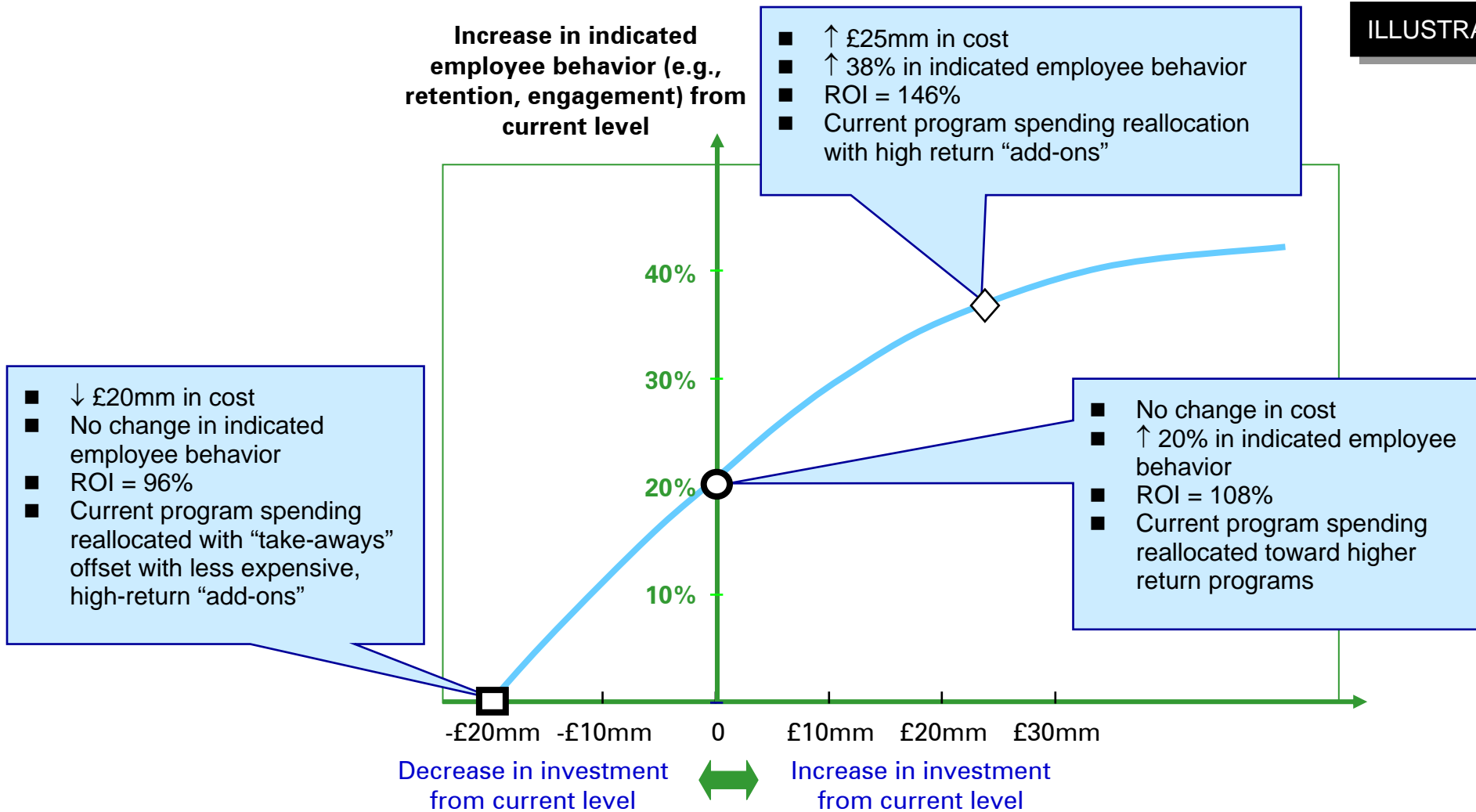
	<b>EFFICIENCY</b>	<b>EFFECTIVENESS</b>	<b>RETURN ON INVESTMENT</b>
<i>Key question</i>	Are our programmes implemented/delivered efficiently?	Are our programmes having the desired impact on employees?	Is our spend having the desired impact on our business financials in the short and/or long-term?
<i>Related questions</i>	<ul style="list-style-type: none"> <li>■ Do we have efficient systems and/or processes?</li> <li>■ Do we take advantage of available (global) economies of scale?</li> <li>■ Are we on top of relevant trends?</li> <li>■ Are we compliant with relevant requirements?</li> </ul>	<ul style="list-style-type: none"> <li>■ What's driving provision of our programmes?</li> <li>■ Are they supporting desired behaviours?</li> </ul>	<ul style="list-style-type: none"> <li>■ To what extent is spend aligned with business financials?</li> <li>■ To what extent is spend sensitive to external influences?</li> <li>■ What (financial) metrics should we monitor on an ongoing basis?</li> <li>■ What are our tolerances in this regard?</li> <li>■ What levers do we have?</li> </ul>

**WHAT DO WE SPEND?**

- On who?
- In what ways?
- Where?

TRO determines the portfolio of rewards that provides the *optimum* ROI for the organisation

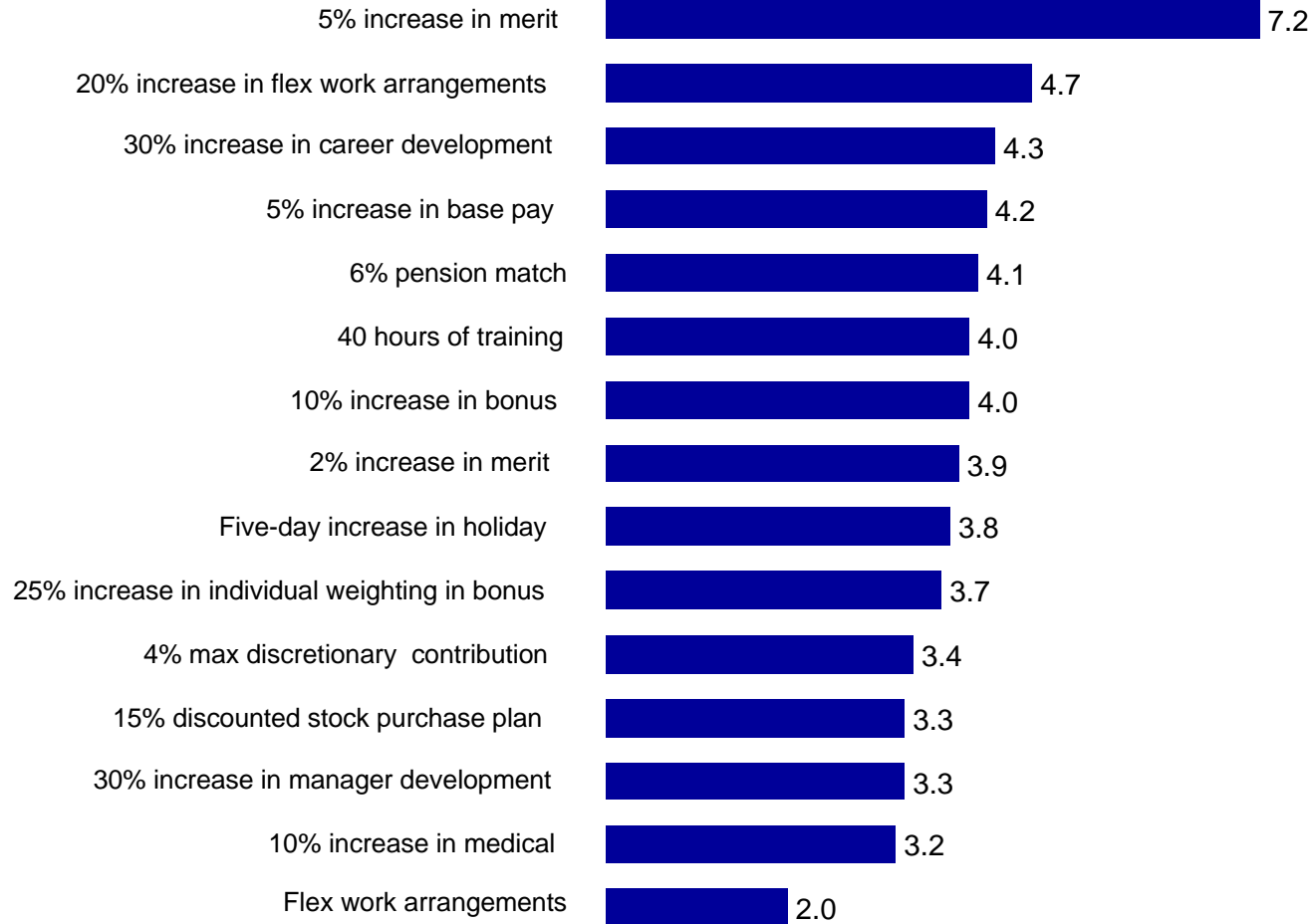
**ILLUSTRATIVE**



# Optimising the rewards programme for your talent pool can deliver significant ROI

## Client Example

## Improvements in Engagement

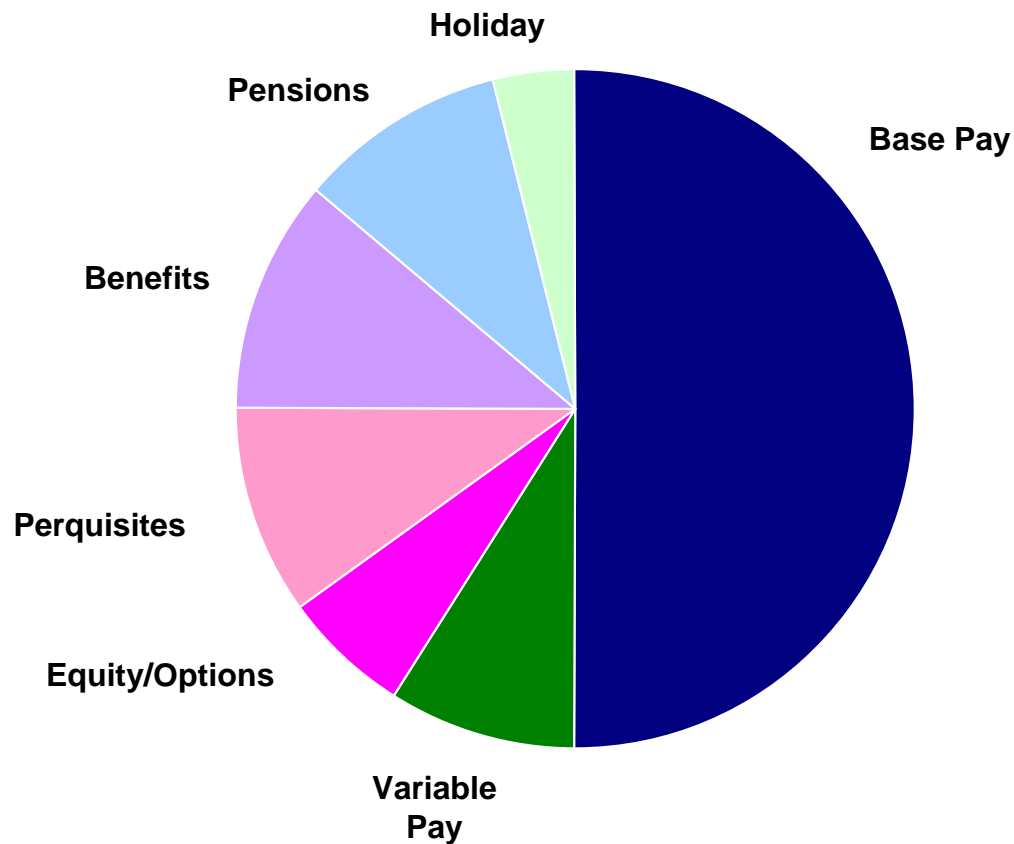


Change in Reward Cost	ROI
\$70M	30%
\$5M	1000%
\$5M	800%
\$75M	-30%
\$30M	100%
\$10M	430%
\$50M	5%
\$25M	70%
\$20M	150%
\$0	Infinite
\$40M	20%
\$5M	1800%
\$10M	500%
\$10M	200%
\$2M	1300%

Note: Modeled impacts of various reward changes on employee engagement are not additive due to the “portfolio effect.” Modeled impact assumes all other programs stay the same. Improvements in employee engagement are point increments to current employee engagement score of 74.9.

# Towers Perrin's Total Rewards Optimisation (TRO) approach will be able to answer three key questions

## £ Investments in Employees



**What is the best level of investment in employees for the company?  
Where do inefficiencies exist?**

**What is the best allocation of that investment to maximise engagement/retention?**

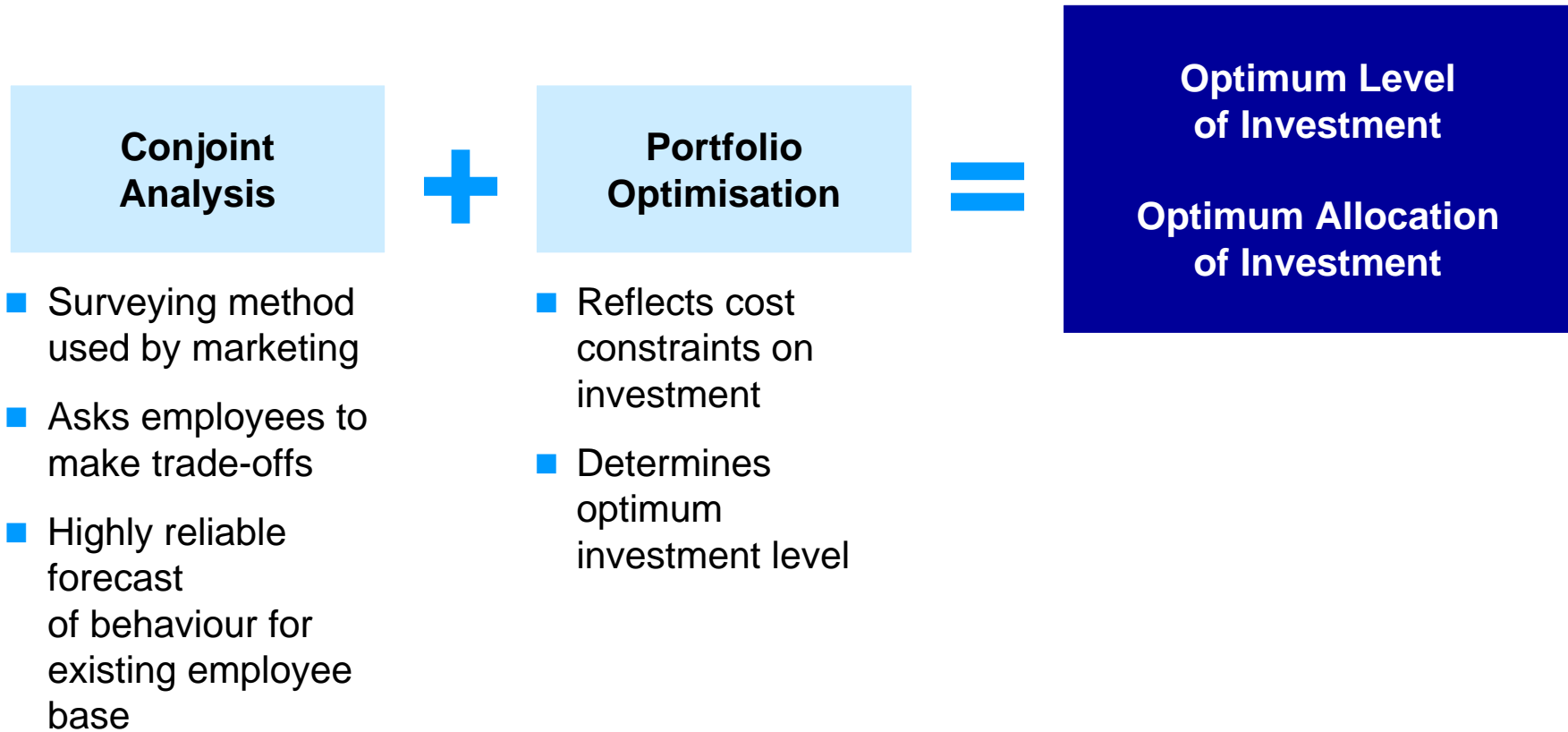
**How do the answers vary by business segment, geography, pay level, or other demographic characteristics?**

ILLUSTRATIVE



We help to improve total rewards effectiveness by looking at two primary elements

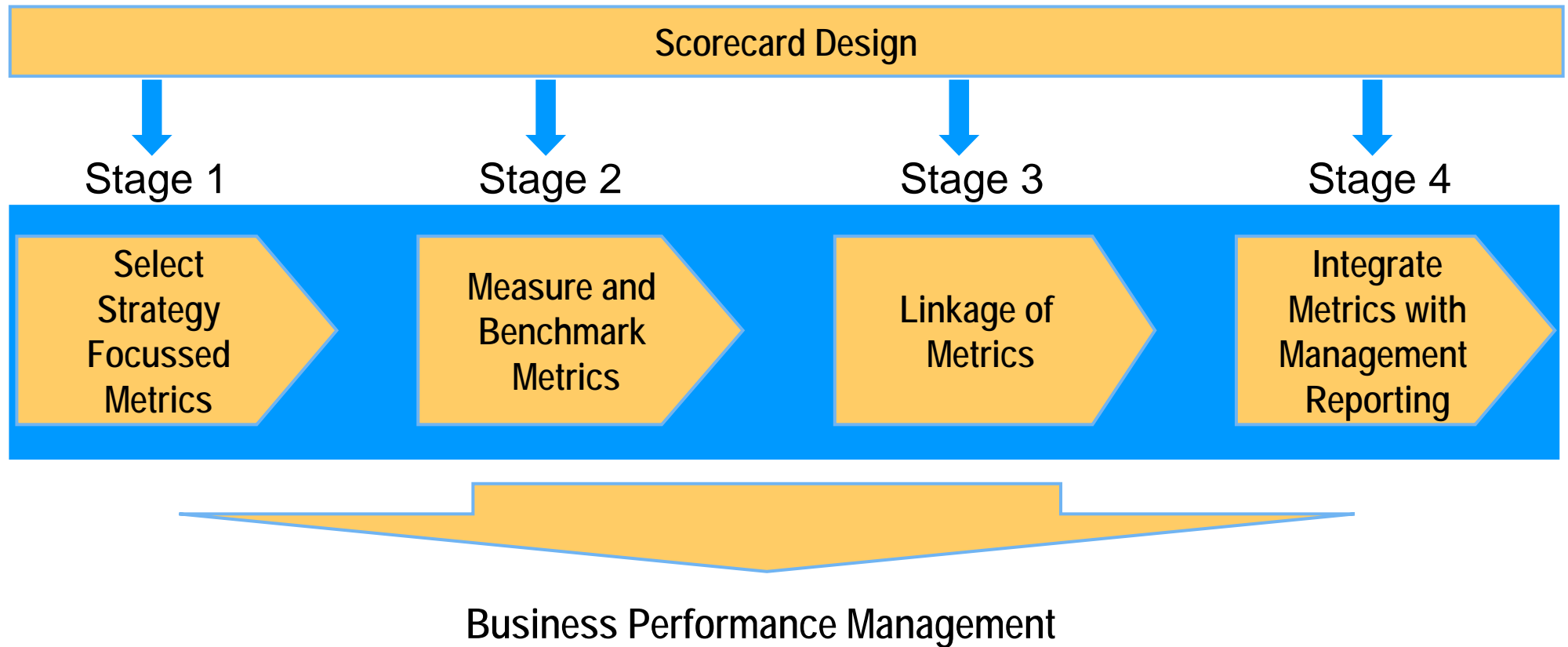
---



# Interventions: Doing it "right"



## Developing your own Scorecard



# The "360 Degrees" Scorecard: "What gets Measured gets Managed"

## Performance ScoreCard [SAMPLE]

### Financials [Score of 1 (very poor) to 5 (very well)]

- How well has the Group met its objectives in terms of increase in market share in 2008?
- How well has the Group met its revenue growth objectives in 2008?
- How well has the Group achieved its targeted earnings per share in 2008?
- How well has the Group achieved its targeted dividend payout in 2008?

### Leadership [Score of 1 (very poor) to 5 (very well)]

- Do you think that the Executive Committee has provided a clear sense of direction to the Group?
- Do you think that the Division leadership has provided a clear sense of direction to their Divisions?
- How well do you think the Executive Committee and the Division leadership has acted on the feedback since the last survey?
- How well do you think the Executive Committee manage communications to investors?

### Managing People and Change [Score of 1 (very poor) to 5 (very well)]

- How well do you think the Leadership has responded to recent business changes?
- Do you think that internal and external communications have been managed well?
- How much do you feel the Group values the development of its employees?

### Health Safety and Environment Objectives [Score of 1 (very poor) to 5 (very well)]

- How well has the Group met its HSE objectives?
- How much do you think the Group has improved in the last year in regard to its HSE objectives?

### Customer Satisfaction [Score of 1 (very poor) to 5 (very well)]

- How satisfied do you think customers are with the Group's services and products?
- How well do you think the Group has improved customer satisfaction relative to its objectives?
- How does the Group focus its efforts on external customers versus internal organisational priorities?

Total Score (This Year)

Total Score (Last Year)

25th Percentile Norm Score

50th Percentile Norm Score

75th Percentile Norm Score

Employer	Employee	3rd Party Assessors	Customers
----------	----------	---------------------	-----------

4	3	3	3
3	4	2	3
3	4	2	3
3		2	3

4	4	3	4
4	4	3	3
4	4	3	3
4	3	4	4

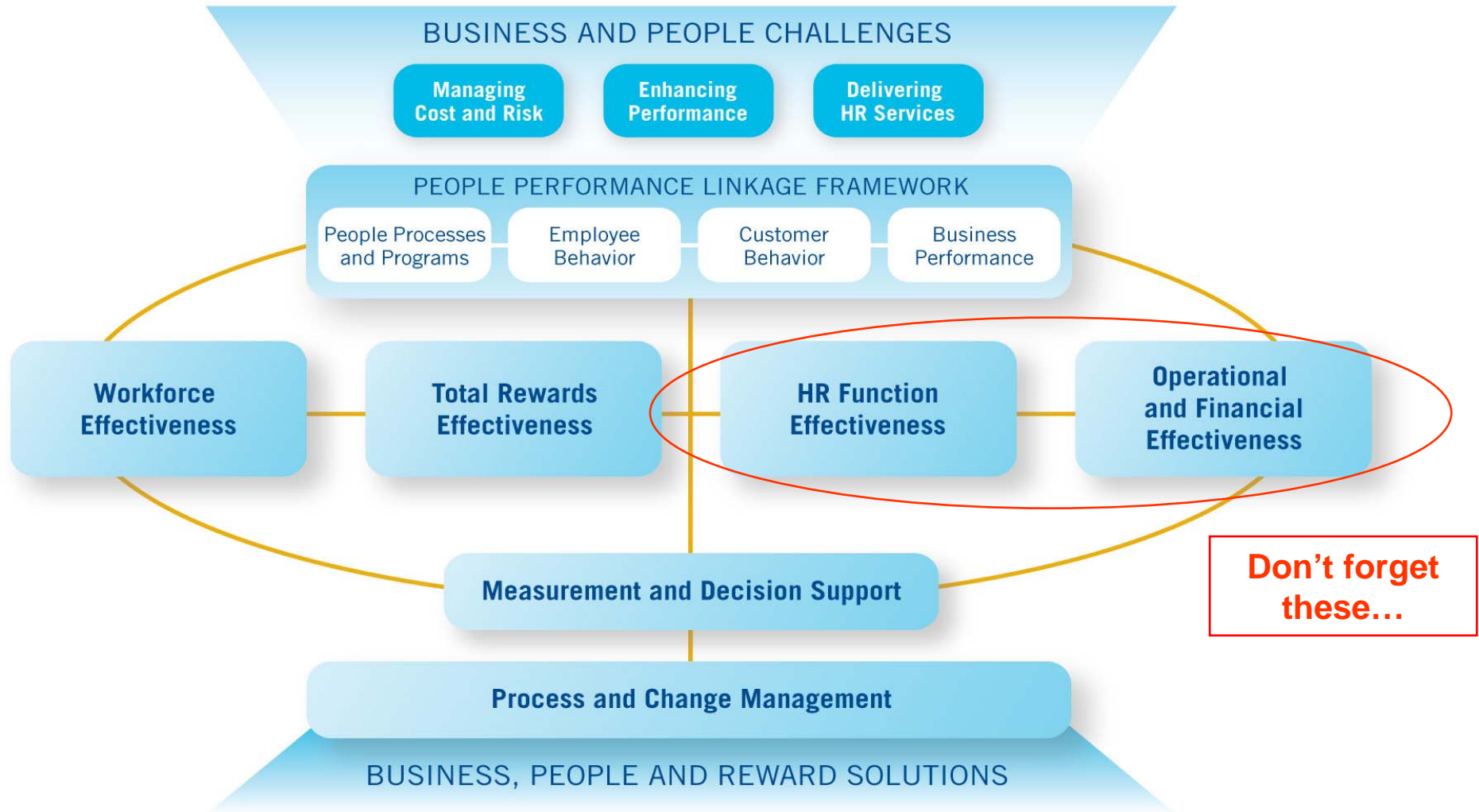
5	5	4	4
4	4	3	3
4	3	3	3

3	1	1	1
3	1	1	1

4	3	3	3
4	2	2	2
4	3	2	2

56	45	39	43
58	50	45	46
40	45	39	45
50	55	48	53
70	75	65	74

# HR Framework



This framework is proprietary to Towers Perrin and cannot be used without permission

## Closing Remarks and Q&A

---

- Gavin Watkins
  - [gavin.watkins@towersperrin.com](mailto:gavin.watkins@towersperrin.com)
  - +44 (0) 20 7170 3410

## SARA Conference 2008

---

### **Linking Reward, Attraction, Retention and Engagement and Business Performance – Global Lessons for South Africa**

Dr. Gavin Watkins

6 November 2008

Reproduction in whole or part of this material is strictly prohibited. They should not be relied on as a substitute for specific advice. Therefore, no responsibility for loss occasioned to any person as a result of acting or refraining from acting on the contents of or information contained in these notes can be accepted by Towers Perrin.